

What could the informal economy have to do with investment in environmentally friendly biofuels and the WTO?

by Thomas Ruddy, www.wsis.ethz.ch/seri.htm

Introduction to the area of expertise trade and investment

A good Sustainable Development Strategy (SDS) is not a Christmas-tree-type fulfillment of all wishes. Instead it should be a result from a societal consensus on trade-offs. How far should our society go in balancing off goals that appear to be in opposition to one another?

Earlier this year the Netherlands Environmental Assessment Agency MNP investigated citizens' world views in relation to the EU SDS. The results of the survey were plotted in relation to the two axes shown in **Fig. 1** based on Ridder / Wesselink (2006). Hence each world view represented a trade-off between two pairs of opposites.

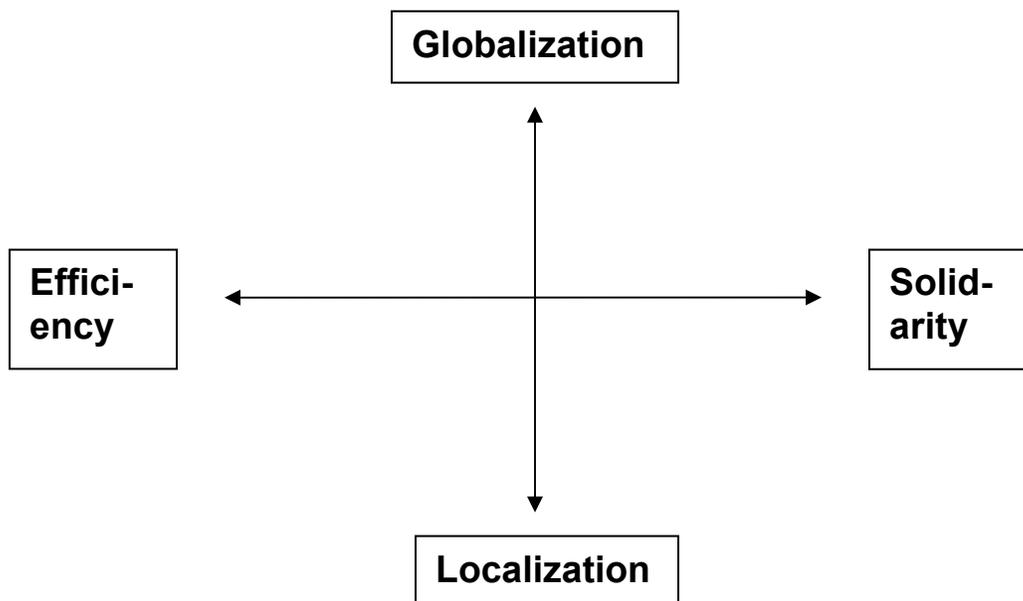


Fig. 1: Coordinates of world views of Dutch citizens

Although many harbor ambivalent feelings about globalization as the results of the survey revealed in Dutch citizens, economic globalization can be said to comprise the main paradigm of my area of expertise, trade and investment; it is the current economic integration project providing affluence. The comparable previous economic integration project was called the *Belle Epoque* in the British Empire from the late Nineteenth Century until World War I.

What do we expect from globalization by the Year 2030? How much generation of world GDP per capita would suffice? What would be enough progress on convergence towards a truly equitable distribution of the gains?

How fast should we be proceeding with integration in the three phases shown in **Fig. 2**? Where is the power vested to decide on the distribution of gains?

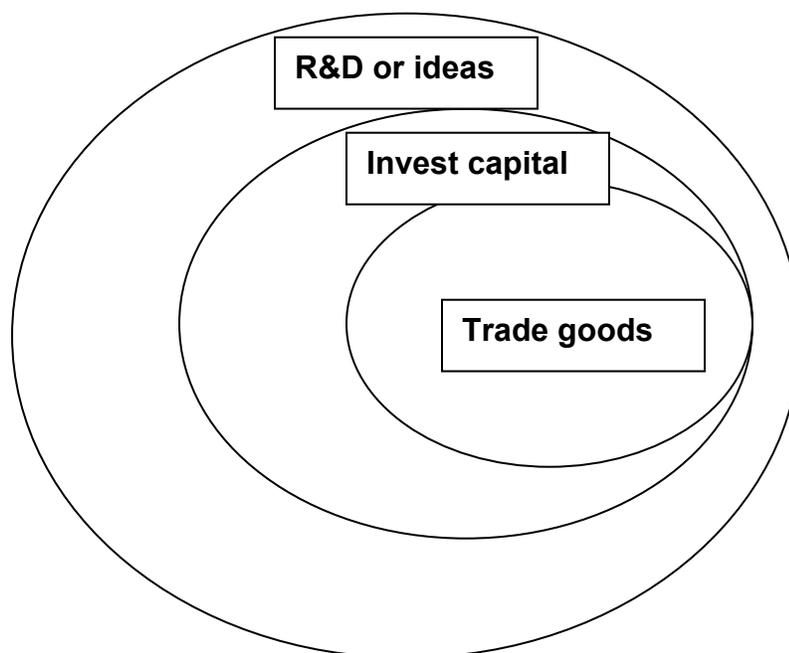


Fig. 2: Phases of economic integration

The governance of the phases of economic integration shown in **Fig. 2** is taking place on the three levels shown in **Table 1**.

Phase of economic integration	Three levels of governance		
R&D ideas			
	Multilateral - WIPO		
		USA (in future China?)	
			National patent offices
Invest capital			
	Multilateral - MAI attempted at OECD in 1998		
		Regional - NAFTA	
			Bilateral – 2000 treaties
Trade goods			
	Multilateral level - WTO		
		Regional - EU	
			Bilateral

Table 1: Multilevel governance structure of phases of economic integration

Long-range goals for my area of expertise and industry /economy

Within the EU of the 15

Trade flows in monetary terms

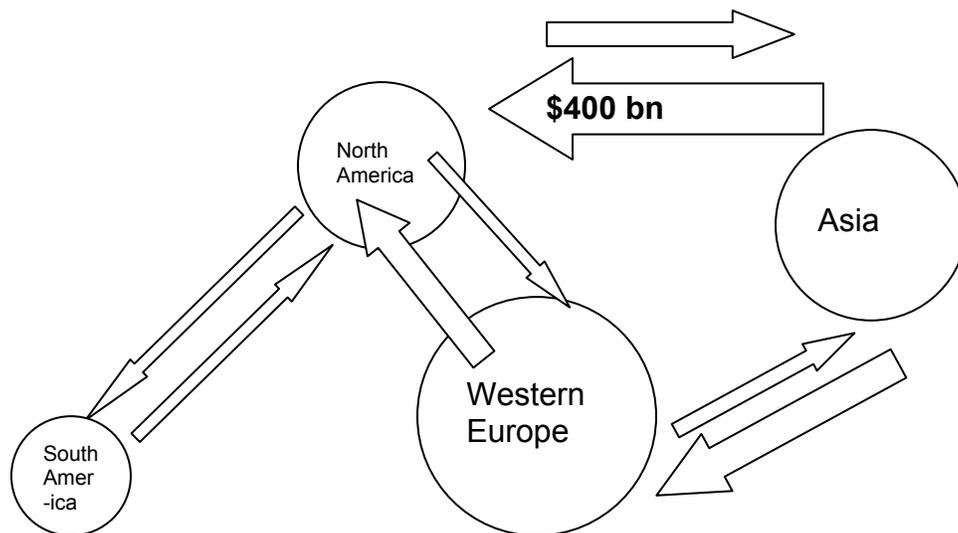


Fig. 3: Interregional flows of goods in the Year 2000 (simplified from Monde Diplomatique (2003): Atlas der Globalisierung)

In keeping with the phases shown in **Fig. 2**, the following forces should be added to the above trade in goods flows: trade in services, flows in investment and payments for the use of Intellectual Property Rights (IPRs).

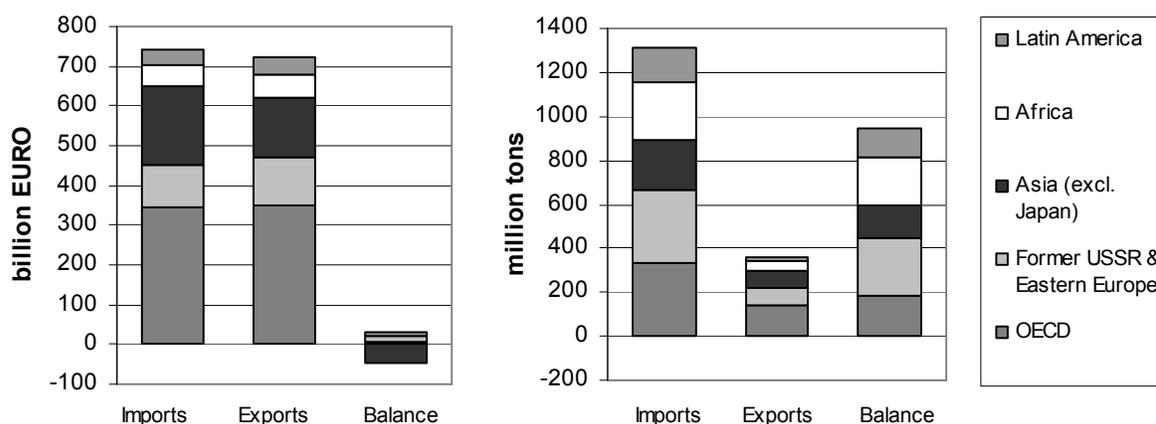


Fig. 4: External trade relations of the EU-15 in monetary (at left) and physical units (at right), 1999, source: Giljum and Hubacek, 2001

Trade and the environment

Before Rio one had looked at the effects of trade on the environment as opposed to all dimensions of sustainability. Duncan Brack discerns direct effects such as fuel costs and indirect effects such as magnifying unsustainable consumption and production patterns. The introduction of Material Flow Analysis (MFA) provided a more accurate basis for seeing environmental impacts than monetary units had. Wackernagel's "ecological footprint" methodology also works in this direction.

Trade and sustainability

Since Rio one looks at the effects of trade on sustainability. Hence Moltke expanded on the narrowly environmental focus by suggesting that one complement MFA with Global Value Chain Analysis (GVCA) to reveal where change was possible in terms of commercial power; see Ruddy / Hilty (2006a).

Approaches to trade and sustainability in the European Union

DG Trade has the longest experience with measuring these impacts. However its method of doing Trade Sustainability Impact Assessment (SIA) was developed three years before the EU Sustainable Development Strategy (EU SDS) came into existence in 2002; see Ruddy / Hilty (2006b).

The external dimension of the EU SDS

The EU SDS is the basis for a Commission-wide Impact Assessment process set up in 2002; see slide in the author's Vienna workshop presentation. For the dimension of the EU SDS affecting the EU's "external" partners, it might be

useful to consider the similar list of eight Millennium Development Goals to be striven towards by all member states of the United Nations before 2015. The final Goal 8 calls for “Developing a global partnership for development”. That goal’s subsidiary, more specific Target 12 calls for “Developing further an open, rule-based, predictable, non-discriminatory trading and financial system.” The importance of this goal is underlined in a remark in the UNDP’s Human Development Report 2003. UNDP complains that “It is hard to imagine the poorest countries achieving Goals 1–7 without the policy changes required in rich countries to achieve Goal 8”, as pointed out by SAWTEE (2004).

Key Sustainability Scenario Elements (SSEs)

Trade

This paper proposes as key SSEs the **material flows, global value chain data, capital allocation and sharing of technology** alluded to above for the factors of production other than labor, plus the following items for labor.

The difficulties in “mobilizing labor”

Unlike the other factors of production, labor has difficulty becoming global; refer back to **Fig. 2**. Reasons can be as simple as the fact that workers do not like to relocate away from the contexts in which they are socially embedded. Therefore labor deserves the following dedicated listing of its SSEs

Economic integration in combination with **demographic** changes is causing **migration** of many young earners from developing countries to the North, some temporarily. Many of the young workers are sending **remittances** back to their dependents in amounts that have recently begun exceeding Official Development Assistance (ODA). This topic is already causing controversy in the EU. Parallel to this global development, in China many young earners are relocating from underdeveloped areas to cities as part of a wave of **urbanization**. In the North meanwhile, a wave of old earners is retiring as pensioners. These massive shifts are related to changes in the relationship between *Dienst nach Vorschrift*, or civilization as we in the North know it, on the one hand, and the “**informal economy**” on the other. In the North the informal economy conceals **unpaid work and gender issues**; in the South it typically generates half of countries’ GDP. Another aspect of the informal economy is the production of **counterfeit products**. That controversial practice involves the above-mentioned global integration of R&D, as do **training** and the “**brain drain**”¹. See Ruddy /Hilty (2006a).

¹ The brain drain is improving: “From 1990 to 2000 ...the number of expatriates from China, India, and Africa more than doubled. However, by 2000, home countries were absorbing relatively more of their highly educated citizens than in the past...., indicating that much of the world had developed an infrastructure capable of using these highly educated people productively,” from US National Science Foundation 2006

Investment

Multi-National Enterprises (MNEs) have risen to such prominence as to see their sales now comprise 50% of world GDP (UNCTAD as cited by Gugler / Tomsik 2006, p.5). Their Foreign Direct Investment (FDI) has two different relationships to trade, both in being substituted for trade and in reinforcing trade by boosting exports from sites outside the investor's home country.

Energy investment

"The [International Energy Agency, OECD, Paris] IEA estimates that a total capital investment of \$8.1 trillion, equivalent to an average of \$300 billion per year... is needed from 2003 to 2030 for the developing and transition economies to meet their energy needs," writes the joint World Bank and IMF Development Committee in 2006, p.vii.

Narrative: What could the informal economy have to do with investment in environmentally friendly biofuels and the WTO?

Is this a causal chain?

Dissatisfaction rises in the informal economy among those confronted with unemployment, marginalization, migration, urbanization and uprooting from their traditional value systems.

Political unrest in countries with large informal economies holding reserves of natural resources such as oil lead to price increases over \$60 per barrel.

This oil price level makes alternative fuels economically attractive, and the market booms for biofuels.

Biofuels and the WTO

If a member state of the WTO exercises a preference for biofuels certified as environmentally friendly, that event might attract a challenger to bring the matter before the WTO as the next test case to be decided under the Technical Barriers to Trade (TBT) Agreement. In previous years the agreement permitted trade lawyers to answer the question as to whether Process and Production Methods (PPM) were product-related in the now-famous tuna/dolphin and shrimp/turtle cases. In general, governments and quasi-governmental agencies in member states of the WTO are not allowed to discriminate on the basis of non-product-related PPMs, although the private sector and NGOs of course are not hindered from doing so. Life-cycle Assessment (LCA) approaches and ecolabelling schemes rely on being allowed to distinguish products by their PPMs, only some of which qualify as adequately "product-related" under the TBT. Developing countries suspect the North of "green protectionism" and fear for the competitiveness of their exports. Duncan Brack explains these relationships in greater detail in his [2000 paper "Trade and Environment after Seattle"](#).

There are linkages here to the other project areas agriculture and land use. Biofuels compete with food production and biodiversity preservation. Infrastructure layout affects mobility needs, which are linked to energy demand.

Related epistemic communities

Sustainability Science

The SustainabilityA-Test project has developed an electronic webbook that provides access to a vast amount of information on tools that can provide support in carrying out an integrated assessment, www.sustainabilitya-test.net

International Political Economy (IPE)

GARNET is a Network of Excellence on Global Governance, Regionalization and Regulation: The Role of the EU, <http://www.garnet-eu.org/> The regionalism and inter-regionalism described in GARNET are distinctly different from the “regionalisation” referred to in Ridder / Wesselink (2006). For that reason the original mention of “regionalisation” has been given above as “local” instead. See also Aggarwal on the rise of inter-regionalism, a trend that has accelerated after the failure of talks on a Doha Development Agenda for a new round of trade negotiations.

In general, the rate of economic integration (see **Fig. 2** above) slowed markedly after the September 11, 2001, attack on the World Trade Center in NY. A similar drop is to be expected from the breakdown of Doha talks. Trade liberalization could pick up again under a new US president after the elections in Nov.2008.

International Law

The Swiss National Science Foundation (NSF) has set up a National Centre of Competence in Research (NCCR) “International Trade Regulation - From Fragmentation to Coherence”,

<http://www.nccr-trade.ch/index.html?contentURL=http://www.nccr-trade.org/ip/ip.html>

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